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SUBJECT: NEW BRUNSWICK PREMIER PUSHING TO MAKE HIS PROVINCE THE "NEXT ALBERTA"

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SUMMARY

¶11. (SBU) New Brunswick Premier Shawn Graham and Energy Minister Jack Keir are working hard to make energy the catalyst for moving their province to economic self-sufficiency. Their agenda calls for their province to be a reliable and long-term electricity supplier to the northeastern United States, despite a number of hurdles such as insufficient transmission capability in the State of Maine, tough competition and environmental challenges. Meanwhile, Irving Oil is exploring new refining opportunities and, together with its Spanish partner Repsol, is on track to begin operations at the Canaport LNG facility in December. Critics of the Premier view his self sufficiency agenda as overly ambitious, but with C\$10-15 billion in energy-related projects on the horizon over the next ten years, no one is underestimating the resolve of the Graham government to make this rags-to-riches plan a reality. END SUMMARY.

The Plan - Laying the Groundwork

¶12. (SBU) Energy matters were the main topic of discussion when Consul General and POL/ECON Specialist visited New Brunswick February 24-27. In private conversations with Liberal Premier Shawn Graham, Energy Minister Jack Keir, senior bureaucrats and industry leaders, CG received an update on the government's much touted energy agenda. The premise of the Graham plan is to harness the province's energy potential to achieve economic self-sufficiency. Right now New Brunswick is one of Canada's so-called "have-not" provinces, suffering from a lack of development opportunities, low investment, high provincial taxes and a dwindling (and aging) population.

¶13. (SBU) The energy/economic development strategy is the chief focus of the Graham government and Keir has been quick off the mark in laying the groundwork for the plan. First, he changed the mindset of the energy department from its sole focus on energy policy to an equal emphasis on the economic development opportunities that energy could bring. Next, Keir uprooted the entire energy department from the capital city of Fredericton and moved it to Saint John, the de facto hub of energy activity in the province. With the move, Keir also put together a new management team which gives equal representation to business and development specialists to augment the technical and policy

staff members.

The Current Phase: Changing the Perception

¶4. (SBU) In our meeting, Keir and his senior staff were upbeat about these changes and the current phase of the plan: increasing the province's profile in the United States. As Keir remarked, while there are potentially new markets at home and elsewhere in Canada, right now he sees the U.S. northeast as the "low-hanging fruit," (i.e., the market that offers the highest returns for a given effort). However, as Keir acknowledged, it has been an uphill battle to convince energy industry CEOs and policy makers that New Brunswick can be a secure and trusted energy supplier. Undaunted, Keir believes that he and the Premier are making progress in changing this perception. Both travel to the United States as often as possible, and in fact Keir had just returned from Washington just days before our meeting. There he met with key officials of the U.S. DoE and he was one of the speakers at the National Energy Forum, both of which he characterized as very productive.

So what is New Brunswick Selling?

¶5. (SBU) Unlike Newfoundland-Labrador and Nova Scotia, New Brunswick has no potentially rich supply of offshore or onshore oil and gas resources. What it does have is a diversified electricity generation system which Graham and Keir are anxious to expand to meet growing energy demands in the U.S. northeast. Central to this plan is the possibility of a second nuclear reactor at the existing nuclear facility at Point Lepreau outside Saint John. Lepreau I is days away from an 18-month shutdown for refurbishing, but once it is operational again, and possibly teamed up with a second reactor, it could be the source for new electricity export opportunities. Keir said he was encouraged earlier this year when the Canadian Nuclear Safety

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Commission began reviewing the design for the second reactor. As he explained, this move meant that the province could start recruiting potential partners for the \$4 billion project and eventually make it possible to start the search for potential customers.

The Barriers: The Impact of Maine's Transmission System

¶6. (SBU) Keir was also candid in outlining the major hurdles in this export plan. First, there is the lack of transmission capability in the neighboring State of Maine, which adds uncertainty to the prospect of increased sales. One way around the problem would be to lay a new, sub-sea transmission line from the Lepreau site directly into Massachusetts. This represents an unpalatable option as Keir was quick to point out that neither he nor the premier want to shut out Maine, which would seriously damage the warm relationship the Premier enjoys with Maine governor John Baldacci. Equally daunting are the environmental considerations. Eight states in the northeastern United States have signed on to the Regional Greenhouse Gas Initiative (RGGI), a "cap-and-trade" regime which will increasingly drive them to seek out cleaner power sources. Keir is aware that this could prompt the states to discourage the importation of so-called "dirty energy" from New Brunswick, especially power coming from oil-fired power plants. Still another obstacle is that New Brunswick is not the only province looking at the "low-hanging fruit" as Keir explained Quebec has expansion plans of its own.

Irving Oil: Refinery and LNG Potential

¶7. (SBU) While future electricity sales form the major foundation for the New Brunswick energy growth plan, Keir also lauded the potential of the privately-owned Irving Oil Company. Just outside Saint John, Irving owns and operates Canada's largest oil refinery (300K+ bbl/day) and the company is actively considering building a second refinery at the site to supply both U.S. and domestic markets. Irving officials told CG the company is looking to find a partner for the project, but so far has not yet gotten a firm commitment from any source. Should the company eventually find the partner and pass the regulatory process, the company could start construction in late 2009 or early 2010.

¶8. (SBU) In the short term, Irving and its Spanish partner Repsol have almost finished the Canaport LNG facility on the outskirts of Saint John. While other LNG projects in the northeast are stalled because of a lack of secure natural gas supplies, Irving and Repsol have already firmed up secure gas supplies mainly from Trinidad and Tobago. The Canaport LNG facility is on schedule to begin operations in December 2008, when it will start injecting one billion cubic feet of regasified LNG per day into the New England market via the Maritime and Northeast pipeline. This output exceeds the current output of Nova Scotia's Sable Island offshore gas production. Our industry contacts said Irving will have no difficulty in expanding past its current plan for three storage tanks at the facility to four or even five, a signal to its LNG competitors that the company has the potential to be the major, if not the only, LNG player in the region.

COMMENT: The Dynamic Duo of Graham and Keir

¶9. (SBU) Premier Graham's energy agenda is not just centered on increased energy sales and exports. He also wants to see the province become a hub for oil refining, LNG distribution, and possibly a center for nuclear energy research and development. Further down the road, the province could also become a conduit for power sales from the Lower Churchill project to the United States should Newfoundland-Labrador decide to construct a sub sea power line to the province. Critics of the Premier view all these ideas as overly ambitious, especially the Premier's prediction that the province will some day become the "next Alberta." On the other hand, with C\$10-15 billion in energy-related projects on the horizon over the next ten years, no one is underestimating the resolve of the Graham government to make this rags-to-riches plan a reality.

¶10. (SBU) Through his trips across Canada and the United States, the Premier is developing a reputation as a highly-charged

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champion for his province. Invariably, all this attention is increasing Graham's national stature, earning him the distinction of being regarded one of Canada's brightest new political stars. Also there are no arguments that Graham's decision to appoint rookie politician Keir to head up the energy portfolio was a wise move. Viewed as ambitious, tireless and keenly focused, Keir has become the Premier's right hand man and the province's best salesman in the energy sector. In all, both Graham and Keir exude a great deal of optimism, zeal and dedication for making this plan work. As one of our political contacts noted, if drive and ambition were the only criteria for a successful implementation of the Graham agenda, New Brunswick would already be well on its way to becoming Canada's newest "have" province. END COMMENT.

FOSTER